

Feasibility Study

for establishing

**a shared-use commercial kitchen incubator / value-adding
agricultural processing facility**

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Executive Summary

Recently, there has been a great deal of interest in the experience of communities that have established shared-use commercial kitchens as part of their local economic development strategy. These communities have reported that kitchen incubators offer two important benefits to start-up and existing food businesses:

- One, the construction and equipping of a community-owned kitchen provides entrepreneurs with time-share access to production facilities and the opportunity to start and expand specialty food and catering businesses without the prohibitive cost of building their own commercial kitchen.
- Second, the “incubator approach” offers these entrepreneurs access to training, capital and technical assistance - three essential ingredients to the success and growth of any start-up or existing business. Both the community and its businesses benefit.

Established kitchen incubators have also benefited their host communities by:

- Creating the employment opportunities that always accompany successful small business start-up and growth strategies.
- Creating food products that celebrate what is unique and best about a community – it’s local crops, ethnic traditions and creative populace – while keeping a greater percentage of food dollars circulating in the local economy.
- Providing new markets for local agricultural products and establishing rural-urban links.

Encouraged by existing kitchen incubators that drive new business formation, create jobs and have the potential for operational self-sufficiency, a growing number of communities have investigated the viability of creating their own incubators by carefully examining the lessons learned, best operating practices, etc., of the established facilities. These lessons can then be cast against local market research in designing a facility that both meets local needs and benefits from industry experience.

This is the approach used in determining if a shared-use commercial kitchen facility could benefit the Madison, Indiana area. Based on the area’s existing community services, the population base within the facility’s effective drawing area, and Madison’s established and growing number of food entrepreneurs, it is believed that the greater Madison area could support a kitchen incubator that would become totally self-funding on an operating basis.

Feasibility Conclusions

Based on the written survey results and the results of personal interviews with anchor tenants, community stakeholders, certain conclusions about feasibility can be determined.

The volume of responses and their consistent support of the shared-use concept provide sufficient basis for a positive feasibility determination. The strength of the anecdotal

information, drawn from in-depth interviews, simply verifies the survey results and provides a high degree of confidence in the study results.

- 1) Market demand is sufficient to support continued project development. This project encompasses southeastern Indiana, north central Kentucky and parts of southern Ohio and this study recommends an outreach to existing and new food related businesses in that area.
- 2) The alliance between the Venture Out Business Center and the SBDC regional office located therein offers four substantial benefits to this project:
 - **Significant Stakeholder Network** The stakeholder network is large and filled with many area business leaders, government entities and area service providing organizations. The Madison group has also been highly successful in attracting substantive, qualified and appropriate organizations to their network. The groups represented are in a position to assist this project greatly.
 - **Existing Building Infrastructure** The existence of the VOBC adds significant credibility to this project. Much of the building infrastructure is all ready in place. The addition of this kitchen component will not require building an entirely new structure, rather renovating exiting industrial space to fit the food manufacturing application.
 - **Existing Program and Staff Infrastructure** The facility already operates as an incubator and understands the process of “business incubation”. Additionally, support and administration staff are already in place to assist in the operation of the proposed kitchen component. VOBC will not in all likelihood need to hire additional support staff, rather relying on existing staff to provide support and administrative services to the new kitchen tenants. A kitchen manager is the only addition to staff this project requires.
 - **Co-located SBDC Regional Office** Having the SBDC regional office located in the incubator is also a significant positive factor for the project. Counselors and other SBDC services are available on-site for prospective kitchen tenants. This is a very significant and positive factor.
- 3) Survey results show the potential to “lease” 347 revenue hours per week between FDA, catering and other businesses. 182 hours originate from start-up businesses (52%) while existing business account for 165 hours (48%). 80 hours (23%) come from anchor tenants. This compares very favorably with established and successful kitchen incubators.
- 4) This represents a base of significant and stable revenue generators (e.g. existing and anchor tenants) and a good number of potential small businesses that would benefit greatly from both a licensed facility and incubator services.

- 5) Existing businesses represented 38% of respondents, while 62% of respondents identified themselves as start-ups. More importantly though, existing and anchor tenants count for 48% of anticipated usage. A high number of potential hours from existing businesses is a significant factor in terms of attracting tenants at facility opening and generating revenue.
- 6) The facility design should reflect a FDA products/catering production facility; sufficient demand does not exist to incorporate costly and limiting USDA certification into the facility.
- 7) A significant number of respondents identified themselves as weekly or monthly regular users (69%), while the occasional designation received much less (26%).
- 8) Survey respondents clearly embrace the “incubator approach”. They wish to take advantage of shared services; the majority picked one or more services they would utilize with, copy/office machines, phone answering, secretarial, and high speed Internet connection all being noteworthy. Respondents also wished to take advantage of additional training with food regulation, marketing assistance and business plan preparation being the top three.
- 9) Existing Madison area kitchen space is not appropriate for food related businesses for a variety of reasons including inability to be licensed, inappropriate storage and production space. Similarly, co-packing is not a viable option for these businesses due to the costly nature of minimum production runs, and/or quality control issues.
- 10) Sufficient user demand exists for a facility of approximately 3,888 square feet, including areas for processing, storage, shipping, warehousing, etc.
- 11) The capital budget to fully develop and equip a facility as described herein is **\$ 1,215,519**, consisting of building renovation, kitchen equipment, architecture and engineering fees, and a start-up expense/capital reserve.
- 12) Industry research clearly shows that shared-use kitchen facilities have not been able to service debt to any degree. It is suggested that the construction and equipping of the facility rely on public funding, grants, and private contributions rather than debt funding.
- 13) The project can generate sufficient revenue to achieve breakeven and become totaling self-supporting within three years.

Project Impacts

The project can provide significant positive impacts. Several significant and positive impacts could result from this project including: Job Creation, Small Business Empowerment, and the establishment of a Regionally Approved Facility.

Job Creation

The Industry research conducted for this study has shown that kitchen incubators have been a good source of job creation. Exhibit 4 in the Industry research section shows the jobs created in terms of two classifications “low/moderate income individuals” and “others”. While Jobs could be either full or part time, the jobs created were quoted as full time equivalent (FTE). Credit was given for the “entrepreneur” job, and all subsequent jobs were counted as employees.

AceNet, Athens Ohio is the facility most directly linked to the proposed Madison facility. AceNet reported creating 145 jobs in its first three years. The Denver Enterprise Center also has valuable lessons that can be applied to the project in Madison. The DEC kitchen reported 198 low/moderate income and 48 other jobs in a period of six years. Poughkeepsie, NY reported 50 low/moderate and 15 other jobs in a period of four years. Finally, rural Sandpoint, Idaho reported 125 jobs in its eleven-year history, 88 being low to mod income.

Small Business Empowerment

The second impact of this project centers on small business empowerment and increased sustainability. All businesses need three things to start and grow: training, technical assistance and access to capital. Food businesses are no exception, and being in a regulated industry could be viewed as in greater need of help. This is absolutely the case with their need for technical assistance. This project will provide a facility whereby area food producers can obtain the training and tools necessary for empowerment, and thereby increase their chances for sustainability.

Regional Approved Facility

As the food industry is regulated area food entrepreneurs need a facility that is regulated and licensed. This project will provide that facility on a regional basis, as studies indicate that food processors will travel up to sixty minutes to utilize a licensed facility. The sixty mile (plus) or ninety minute commute radius encompasses not only Madison and southern Indiana, but many parts of north central Kentucky and southern Ohio. See Appendix C – Study Area Boundaries.

There is significant evidence to support the feasibility of establishing a shared-use commercial kitchen in the Madison area. The proposed facility, with the recommended mix of production facilities, training, technical assistance and access to capital, will provide a strong foundation for the success of both the food-based enterprises, and the community based initiatives identified through the study process.